



August 21, 2006

Susan Schmidt Bies
Governor
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Governor Bies:

Thank you for taking the time to meet with our delegation of state supervisors. We appreciate the opportunity for a frank discussion of our issues and concerns related to Basel II.

We remain convinced that a public discussion of the Standardized Approach in the context of implementing Basel II is reasonable and prudent. As Basel II has progressed, we have consistently expressed our concerns about its complexity and the need for an understandable and transparent approach. We respectfully request that the federal banking agencies include a specific question related to the Standardized Approach in the Basel II NPR.

During our meeting, you indicated that the "Basel 1A" NPR will be closer to the Standardized Approach. While we believe the Standardized Approach should be specifically discussed in the context of Basel II, this raises a fundamental concern for state supervisors. We have not been a party to the drafting of this release nor have we been consulted on the major provisions outside of the normal public comment period. As the chartering authority for 70% of the insured depositories, most of which would fall under a "1A" rule, we are concerned with our lack of access to information on an issue which directly affects our supervised institutions.

We also discussed our concern with access to confidential reporting data after Basel II is implemented. We believe it will be very important for supervisors to have a broad view of Basel II implementation beyond their own regulated institution. As we indicated, we are aware of situations where the Office of the Comptroller of the Currency and the Office of Thrift Supervision had access to state bank data, while state regulators had access limited to only their institutions. We are interested in working with you and the other federal agencies to seek a prudent solution which meets the supervisory needs of each regulator and serves the best interest of the banking system.

Finally, we are concerned that the draft Basel II NPR leaves all key implementation and qualification decisions to the "primary federal regulator." We see no reference in this process to the chartering authority or the insurer. We would like to see specific reference to the needs and interest of the chartering authority.

CONFERENCE OF STATE BANK SUPERVISORS

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CSBS has two groups working on issues related to capital. The "Basel Working Group" is comprised of Commissioners and Deputy Commissioners and is responsible for policy development. Our "Basel II Study Group" is comprised of senior examiners responsible for the supervision of institutions which are core banks or may opt-in to Basel II. This latter group would benefit from increased access to information during the implementation phase. We agreed to explore methods to facilitate this information exchange.

As you know, we have been asked to testify at the upcoming hearing before the House Committee on Financial Services' Subcommittee on Financial Institutions & Consumer Credit. Steve Antonakes, the Massachusetts Commissioner of Banks, will be testifying on behalf of state bank regulators. We are very interested in addressing these issues prior to this hearing.

Thank you again for allowing us to express our views on these issues, which we all agree are critical to our banking system and the economic vitality of our communities.

Best regards,

A handwritten signature in black ink, reading "Neil Milner". The signature is written in a cursive, flowing style.

Neil Milner
President & CEO

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